

Message Text

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E.O. 11652: N/A

TAGS: OECD, ECON

SUBJECT: DOCUMENTATION FOR JUNE 23-24 OECD MINISTERIAL

MEETING: STRATEGY FOR SUSTAINED EXPANSION IN THE OECD

AREA: PROSPECTS (REFDOC)

REF: C(77)111

1. SECRETARIAT HAS CIRCULATED SUBJECT DOCUMENT AS BASIS
FOR DISCUSSION UNDER AGENDA ITEM III AT JUNE 23-24 MINIS-
TERIAL. TEXT OF DOCUMENT FOLLOWS, PARA 2. ACTION
REQUESTED: SINCE THIS SUBJECT WILL BE DISCUSSED AT HEADS
OF DELEGATIONS MEETING IN COMING DAYS, MISSION WOULD
APPRECIATE COMMENTS ON DOCUMENT AS SOON AS POSSIBLE.

2. BEGIN TEXT

1. AT THEIR LAST MEETING A YEAR AGO MINISTERS ADOPTED A
STRATEGY FOR SUSTAINED EXPANSION IN THE OECD AREA, AIMING
AT A PROGRESSIVE RETURN TO FULL EMPLOYMENT AND PRICE STA-
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BILITY. THE PRESENT MEETING PROVIDES AN OPPORTUNITY TO
REVIEW PROGRESS, AND CONSIDER THE PROSPECTS AND PROBLEMS
LYING AHEAD AND THE APPROPRIATE POLICY RESPONSE.

2. DURING THE LAST YEAR, THE GENERAL APPROACH UNDERLYING
THIS STRATEGY RECEIVED WIDER SUPPORT AT THE ANNUAL MEET-
ING OF THE IMF IN MANILA, AND, MORE RECENTLY, THE MEET-

INGS OF HEADS OF STATE AND GOVERNMENT IN LONDON AND IN VIENNA (EFTA). IN SEVERAL RESPECTS IT IS ALSO IN LINE WITH THE ANALYSIS AND RECOMMENDATIONS CONTAINED IN THE REPORT "TOWARDS FULL EMPLOYMENT AND PRICE STABILITY" WHICH WILL BE PRESENTED TO MINISTERS BY THE CHAIRMAN OF THE GROUP OF INDEPENDENT EXPERTS WHICH PREPARED IT, PROFESSOR MCCRACKEN.

3. AS RECOGNISED FROM THE OUTSET, THE IMPLEMENTATION OF THIS STRATEGY HAS NOT PROVED EASY. THE EVENTS OF 1971-75 HAVE LEFT A LEGACY OF ADVERSE EXPECTATIONS - PEOPLE ASSUME THAT HIGH RATES OF INFLATION ARE GOING TO CONTINUE, AND ARE LESS CONFIDENT ABOUT FUTURE GROWTH. IT IS A SOBERING THOUGHT THAT IN THE YEAR SINCE THE STRATEGY WAS ADOPTED REAL GNP IN THE OECD AREA HAS BEEN RISING AT AN ANNUAL RATE OF ONLY BETWEEN 3 AND 4 PERCENT, UNEMPLOYMENT IS HIGHER THAN IT WAS THEN, AND THE RISE IN CONSUMER PRICES HAS RECENTLY ACCELERATED - HOPEFULLY, ONLY TEMPORARILY. IT IS AGAINST THIS BACKGROUND THAT MINISTERS WILL WANT TO CONSIDER THE PROSPECTS OVER THE NEXT TWELVE TO EIGHTEEN MONTHS AND THE QUESTIONS CONCERNING POLICIES TO WHICH THEY GIVE RISE.

I. PROSPECTS OVER THE NEXT TWELVE TO EIGHTEEN MONTHS

4. FOLLOWING THE PAUSE IN THE MIDDLE QUARTERS OF LAST YEAR, THE PICK-UP IN DEMAND AND ACTIVITY WHICH STARTED IN THE FOURTH QUARTER HAS PROVED STRONGER THAN EXPECTED IN THE UNITED STATES, BUT HAS BEEN HESITANT IN MOST OTHER LIMITED OFFICIAL USE

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COUNTRIES. IN THE FIRST HALF OF THIS YEAR OECD REAL GNP MAY HAVE BEEN RISING AT AN ANNUAL RATE OF AROUND 4 PERCENT. IN THE SECOND HALF THERE WILL BE A POSITIVE IMPACT FROM EXPANSIONARY ACTION TAKEN IN A NUMBER OF COUNTRIES - INCLUDING, IN PARTICULAR, JAPAN, GERMANY AND THE UNITED STATES - AND THE RATE OF EXPANSION MAY ACCELERATE TO AROUND 5 PERCENT (SEE TABLE ANNEXED).

5. THE KEY QUESTION IS WHETHER THIS HIGHER RATE OF EXPANSION WILL BE SUSTAINED INTO 1978. A MORE INFORMED ASSESSMENT SHOULD BE POSSIBLE AFTER THE MEETING OF THE ECONOMIC POLICY COMMITTEE ON 14TH-15TH JUNE. ON PRESENT EVIDENCE, THE OUTLOOK DIFFERS RATHER SHARPLY AS BETWEEN THE UNITED STATES AND MOST OTHER COUNTRIES. IN THE UNITED STATES THE PROSPECTS LOOK REASONABLY GOOD, DESPITE THE RECENT LESS FAVOURABLE SURVEYS OF CONSUMERS' CONFIDENCE. THE PROFIT POSITION HAS IMPROVED SIGNIFICANTLY, CAPACITY

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UTILISATION IS RISING AND THERE IS INCREASING EVIDENCE
OF A RECOVERY IN PRIVATE INVESTMENT. IN MOST OTHER COUN-
TRIES, HOWEVER, PRODUCTIVE INVESTMENT IS LAGGING AND THE
LEADING INDICATORS - ORDERS AND SURVEYS OF BUSINESS CON-
FIDENCE - ARE NOT PARTICULARLY ENCOURAGING.

6. PRESENT SECRETARIAT FORECASTS FOR THE FIRST HALF OF
1978 SHOW GNP GROWTH DROPPING BACK TO 5 PERCENT IN THE
UNITED STATES AND JAPAN, AND TO UNDER 3 PERCENT IN EUROPE.
IF THESE FORECASTS PROVE CORRECT, IT WOULD MEAN THAT,
AFTER A GOOD START IN THE TWELVE MONTHS TO MID-1976, THE
GROWTH RATE FOR THE GNP OF THE OECD AREA AS A WHOLE WOULD
HAVE AVERAGED AROUND 4 PERCENT A YEAR FROM MID-1976 TO
MID-1978, COMPARED WITH THE 5 PERCENT OR SOMEWHAT MORE
OVER THE FIVE YEARS 1975-80 TO WHICH REFERENCE WAS MADE
WHEN THE STRATEGY WAS ADOPTED LAST YEAR. IT WOULD ALSO
MEAN THAT UNEMPLOYMENT WILL CONTINUE TO EDGE UP OVER THE
NEXT TWELVE MONTHS IN ALL THE LARGER AND MOST OF THE
SMALLER COUNTRIES IN EUROPE, AND ALSO IN JAPAN AND CANADA.

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7. THE RECENT ACCELERATION OF THE CONSUMER PRICE RISE IN THE OECD AREA MAINLY REFLECTS A SURGE IN INTERNATIONAL COMMODITY PRICES AND THE EFFECTS OF ADVERSE WEATHER ON FOOD AND OTHER RETAIL PRICES. THERE IS SOME RISK THAT THIS WILL LEAD TO HIGHER WAGE CLAIMS AND REKINDLE INFLATIONARY EXPECTATIONS, BUT SINCE IT LARGELY REFLECTS TEMPORARY SUPPLY DISRUPTIONS RATHER THAN DEMAND PRESSURES, THERE SHOULD BE SOME SLOWDOWN LATER IN THE YEAR. WAGE INCREASES IN MANY MEMBER COUNTRIES BECAME RATHER MORE MODERATE OVER THE COURSE OF THE LAST YEAR, BUT THERE IS LITTLE IMMEDIATE PROSPECT OF A REDUCTION IN THE UNDERLYING RATE OF INFLATION, AS MEASURED BY UNIT LABOUR COSTS, WHICH REMAINS HIGH BY PAST STANDARDS IN MOST COUNTRIES.

8. THE MAIN FEATURES IN WORLD TRADE ARE LIKELY TO BE A RELATIVELY WEAK GROWTH BOTH OF TRADE WITHIN THE OECD AREA AND OF IMPORTS FROM NON-MEMBER COUNTRIES, BUT BUOYANT EXPORTS TO OPEC AND THE NON-OIL DEVELOPING COUNTRIES WHO HAVE BENEFITED FROM AN IMPROVEMENT IN THEIR TERMS OF TRADE. THE COMBINED OECD CURRENT ACCOUNT DEFICIT, WHICH ROSE SHARPLY TO AN ANNUAL RATE OF \$40 TO \$45 BILLION IN THE SIX MONTHS TO MARCH, COULD DROP BACK TO PERHAPS \$25 BILLION NEXT YEAR. AGAINST THE BACKGROUND OF A SUBSTANTIAL DETERIORATION IN THE UNITED STATES' CURRENT ACCOUNT, THERE IS THE WELCOME PROSPECT OF AN IMPROVEMENT IN THE POSITION OF THE UNITED KINGDOM, ITALY AND FRANCE, AND SOME REDUCTION IN THE GERMAN SURPLUS. BUT THE JAPANESE CURRENT SURPLUS MAY BE BIGGER THAN IN 1976 AND THE LARGE SURPLUSES OF THE NETHERLANDS AND SWITZERLAND ARE UNLIKELY TO FALL MUCH. IT IS A MATTER OF PARTICULAR CONCERN THAT A NUMBER OF THE SMALLER OECD COUNTRIES, WHICH HAVE BEEN RUNNING SUBSTANTIAL DEFICITS FOR SOME TIME, MAY RUN INTO MORE SERIOUS PAYMENTS PROBLEMS OVER THE NEXT 12 TO 18 MONTHS.

II. POLICY ISSUES

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DEMAND MANAGEMENT POLICIES

9. MEMBER GOVERNMENTS HAVE BEEN DETERMINED TO AVOID THE MISTAKES MADE DURING THE HIGHLY SYNCHRONISED AND INFLATIONARY 1972-73 BOOM; INDEED, THE NEED FOR MORE CAUTIOUS DEMAND MANAGEMENT POLICIES WAS ONE OF THE MAIN ELEMENTS IN THE STRATEGY ADOPTED A YEAR AGO. THE MODERATE PACE OF THE RECOVERY CAN, IN THE EVENT, BE EXPLAINED VERY LARGELY IN TERMS OF THE POLICIES FOLLOWED. MONEY SUPPLY ROSE BY ONLY 2-4 PERCENT IN REAL TERMS IN 1976 COMPARED

WITH 10-12 PERCENT A YEAR IN 1970-73.(1) THE IMPACT OF FISCAL POLICY, WHICH WAS QUITE STRONGLY EXPANSIONARY IN 1975, SWUNG BACK SHARPLY IN 1976 BY AN AMOUNT TENTATIVELY ESTIMATED AT AROUND 3 PERCENT OF GNP.

(1) M2 IN A NINE COUNTRY AGGREGATE.

10. THE RELATIVELY CAUTIOUS STANCE OF MONETARY POLICIES SEEMS APPROPRIATE AT A TIME WHEN INFLATIONARY EXPECTATIONS REMAIN STRONG. AS REGARDS FISCAL POLICY, IT IS UNDERSTANDABLE THAT GOVERNMENTS SHOULD HAVE WISHED TO MAKE AN

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EARLY START ON RESTORING THEIR BUDGETARY POSITION AFTER THE RECESSION; QUITE A NUMBER OF COUNTRIES ARE ALSO TRYING TO SLOW DOWN THE RISE IN PUBLIC EXPENDITURE AS A MATTER OF LONGER-TERM POLICY. BUT IN COMBINATION WITH FISCAL DRAG, AND IN SOME CASES AN UNEXPECTED SHORTFALL IN EXPENDITURES, THE NET EFFECT HAS PROBABLY BEEN SOMEWHAT MORE RESTRICTIVE THAN INTENDED IN A NUMBER OF COUNTRIES.

11. DEMAND MANAGEMENT POLICIES MUST BE DETERMINED IN THE LIGHT OF THE CIRCUMSTANCES PREVAILING IN EACH COUNTRY, WHICH DIFFER CONSIDERABLY AT THE PRESENT TIME. THE QUESTION OF PRIMARY INTEREST TO MINISTERS AT THIS MEETING

IS WHETHER THESE POLICIES, TAKEN AS A WHOLE, PROVIDE THE BASIS FOR A SUSTAINED RECOVERY WITHOUT ACCELERATING INFLATION, AND, TAKEN INDIVIDUALLY, FOR MOVEMENT TOWARDS A SUSTAINABLE PATTERN OF INTERNATIONAL PAYMENTS. FOR THE IMMEDIATE FUTURE, THE EMPHASIS SHOULD NO DOUBT REMAIN ON THE DIFFERENTIATION OF POLICIES, WITH COUNTRIES IN A FAVOURABLE POSITION SEEKING TO ACHIEVE REASONABLY SUBSTANTIAL INCREASES IN DOMESTIC DEMAND, WHILE THOSE WITH HIGH INFLATION LIMITED OFFICIAL USE

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TION AND A WEAK EXTERNAL POSITION PURSUE - OR INTRODUCE - STABILISATION POLICIES. BUT, LOOKING FORWARD TO 1978, THE QUESTION ARISES AS TO WHETHER, IN THE OVERALL CONTEXT, THERE MAY NOT BE A MORE GENERAL NEED FOR SOME ACTION TO SUSTAIN THE RECOVERY SO AS TO ACHIEVE A SOMEWHAT FASTER EXPANSION DURING 1978 THAN NOW SEEMS LIKELY. WHERE NEEDED, SUCH ACTION SHOULD BE TAKEN REASONABLY PROMPTLY IN THE INTERESTS OF MAINTAINING THE RECOVERY ON A SMOOTH AND STEADY COURSE.

12. APART FROM THE OBVIOUS SOCIAL AND POLITICAL DESIRABILITY OF REDUCING UNEMPLOYMENT, OTHER ARGUMENTS FAVOUR A SOMEWHAT STRONGER EXPANSION IN 1978. IT WOULD HELP TO BRING FORWARD THE MUCH-NEEDED RECOVERY IN PRIVATE PRODUCTIVE INVESTMENT, AND IT WOULD PROVIDE A BETTER CLIMATE IN WHICH TO RESIST PROTECTIONIST PRESSURES AND LIVE UP TO THE TRADE PLEDGE. BUT WOULD IT BE ACCOMPANIED, AND EVENTUALLY UNDERMINED, BY ACCELERATING INFLATION? THERE ARE CONFLICTING CONSIDERATIONS. UNDER PRESENT CIRCUMSTANCES, RISING UNEMPLOYMENT AND WEAK TRENDS IN PERSONAL INCOMES MAY NOT DO MUCH TO SOFTEN WAGE-BARGAINING ATTITUDES - AND MIGHT, IN CERTAIN CASES, HARDEN THEM. EQUALLY, WITH PRESENT LOW LEVELS OF CAPACITY UTILISATION, A SOMEWHAT STRONGER RECOVERY SHOULD BE BENEFICIAL ON THE COST SIDE WITHOUT MUCH IMMEDIATE DANGER OF LEADING TO PRICE RISES INDUCED BY STRAINS ON CAPACITY. ON THE OTHER HAND, INFLATIONARY EXPECTATIONS REMAIN STRONG, AND COULD BE ENHANCED - WHETHER THIS IS RATIONAL OR NOT - BY ACTION TO STIMULATE DEMAND.

13. THE STRATEGY ADOPTED LAST YEAR CALLS FOR A PROGRESSIVE REDUCTION IN BOTH INFLATION AND UNEMPLOYMENT. IN REAFFIRMING THIS STRATEGY, MINISTERS ARE FACED WITH THE DIFFICULT TASK OF JUDGING WHETHER SOMEWHAT STRONGER EXPANSION IN 1978 THAN AT PRESENT SEEMS LIKELY WOULD BE CONSISTENT WITH MAKING SUSTAINABLE PROGRESS ON BOTH FRONTS. LIMITED OFFICIAL USE

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IN THIS RESPECT, THE PROSPECTS FOR EACH INDIVIDUAL COUNTRY DEPEND VERY MUCH ON WHAT IS HAPPENING OUTSIDE ITS FRONTIERS; MINISTERS MAY, THEREFORE, WISH TO CONSIDER WHETHER ARRANGEMENTS FOR MONITORING PROGRESS UNDER THE STRATEGY COULD USEFULLY BE STRENGTHENED.

EMPLOYMENT AND MANPOWER POLICIES

14. SO FAR DURING THE RECOVERY, THE EXPANSION OF EMPLOYMENT HAS BEEN AT BEST MODEST IN MOST OECD COUNTRIES, EXCEPT THE UNITED STATES. UNEMPLOYMENT, AFTER RISING SHARPLY DURING THE RECESSION, FELL IN MANY COUNTRIES FOR A PERIOD LAST YEAR, BUT IN MANY CASES HAS INCREASED AGAIN TO NEAR OR ABOVE THE RECESSION PEAK. ABOUT TWO-FIFTHS OF THE UNEMPLOYED ARE YOUNG WORKERS AGED 15-24, ALTHOUGH THEIR SHARE IN THE LABOUR FORCE IS MUCH SMALLER THAN THIS, AND IN MANY CASES THEIR UNEMPLOYMENT RATES ARE TWO TO THREE TIMES HIGHER THAN FOR ADULT WORKERS.

15. HIGH UNEMPLOYMENT IS A PRODUCT OF SUBSTANTIAL DEMAND DEFICIENCIES AND STRUCTURAL PROBLEMS. IT IS A BASIC PREMISE OF THE STRATEGY THAT, UNDER PRESENT CIRCUMSTANCES, OVERALL DEMAND MANAGEMENT CANNOT REDUCE UNEMPLOYMENT RAPIDLY WITHOUT TRIGGERING OFF A NEW

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INFLATIONARY RECESSION. WHAT IS REQUIRED, THEREFORE, IS A BLEND OF GENERAL FISCAL AND MONETARY POLICIES AND SELECTIVE EMPLOYMENT POLICIES WHICH TAKES INTO ACCOUNT THE SPEED WITH WHICH NEW JOBS ARE CREATED AND THE NET COST TO THE BUDGET OF DIFFERENT TYPES OF ACTION.

16. AGAINST THIS BACKGROUND, AND IN ACCORDANCE WITH THE 1976 RECOMMENDATION OF THE OECD COUNCIL ON A GENERAL EMPLOYMENT AND MANPOWER POLICY, MANY GOVERNMENTS HAVE EXPANDED THEIR EMPLOYMENT AND MANPOWER POLICIES, IN PARTICULAR BY PROVIDING JOB AND TRAINING OPPORTUNITIES FOR THE MOST SEVERELY HIT SECTIONS OF THE LABOUR FORCE. MINISTERS MAY WISH TO ENDORSE THE VIEW THAT, GIVEN THE NEED TO ACCELERATE PROGRESS TOWARDS THE FULL EMPLOYMENT OBJECTIVE, MEMBER COUNTRIES SHOULD BRING SELECTIVE EMPLOYMENT AND MANPOWER POLICIES MORE EXPLICITLY TO BEAR ON EMPLOYMENT OBJECTIVES IN THE CONTEXT OF THE MEDIUM-TERM STRATEGY.

17. MINISTERS MAY WISH TO PAY SPECIAL ATTENTION TO THE LIMITED OFFICIAL USE

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PROBLEM OF YOUTH UNEMPLOYMENT. THE RECESSION AND SLOW RECOVERY HAS BORNE PARTICULARLY HEAVILY ON NEW ENTRANTS TO THE LABOUR FORCE, AGGRAVATED BY MEASURES TO PROTECT THOSE ALREADY IN THE LABOUR FORCE, AND BY MORE ENDURING FACTORS WHICH IMPEDE THE HIRING OF YOUNG PEOPLE. YOUTH UNEMPLOYMENT HAS, IN CONSEQUENCE, BECOME A PRIORITY TARGET OF PUBLIC MANPOWER AND EDUCATIONAL POLICIES IN WHICH MEMBER COUNTRIES ARE TAKING MANY INITIATIVES: FOR EXAMPLE, WAGE SUBSIDIES IN THE PRIVATE SECTOR, IN SOME CASES COMBINED WITH FURTHER TRAINING; ACCELERATED JOB CREATION IN THE PUBLIC SECTOR; AND COMMUNITY EMPLOYMENT SCHEMES. MINISTERS MAY WISH TO CONSIDER HOW THE OECD COULD ACCELERATE EXCHANGE OF EXPERIENCE AND DEVELOP POLICY DIRECTIONS FOR DEALING WITH THE COMMON PROBLEM OF YOUTH UNEMPLOYMENT IN MEMBER COUNTRIES.

18. UNEMPLOYMENT IS PARTICULARLY SERIOUS IN SOME SOUTHERN EUROPEAN COUNTRIES WHICH, IN ADDITION TO THEIR LONG-TERM STRUCTURAL PROBLEMS, HAVE SUFFERED BOTH CONJUNCTURAL WEAKNESS AND THE BACKWASH OF IMMIGRATION RESTRICTIONS IN NORTHERN EUROPE. THE PROBLEM IS PARTICULARLY ACUTE IN PORTUGAL AND TURKEY. THE RECESSION BROUGHT A SUDDEN CHECK TO EUROPEAN MIGRATION, AND IN SOME CASES A SIGNIFICANT REVERSAL OF THE TRADITIONAL PATTERNS OF FLOW.

THIS NEW SITUATION OBVIOUSLY IMPOSES SIGNIFICANT TRANSITIONAL BURDENS ON THE EMIGRATION COUNTRIES AND ON THE MIGRANTS THEMSELVES. BEARING IN MIND THAT THE FUTURE SCALE OF MIGRATION BETWEEN EUROPEAN MEMBER COUNTRIES MAY BE MUCH REDUCED, THERE MAY BE A NEED TO INTENSIFY CO-OPERATION TO EASE THE PROBLEMS OF TRANSITION AND TO ORGANISE A MORE EFFECTIVE DIALOGUE CONCERNING FUTURE PATTERNS OF LABOUR SUPPLY AND DEMAND AMONG OECD EUROPEAN COUNTRIES. THESE MATTERS ARE CURRENTLY UNDER CONSIDERATION BY AN OECD GROUP OF EXPERTS (THE KINDLEBERGER GROUP).

PAYMENTS DISEQUILIBRIUM AND OFFICIAL FINANCING
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19. THERE IS A BROAD CONSENSUS THAT COUNTRIES IN A STRONG EXTERNAL POSITION SHOULD EXPAND DOMESTIC DEMAND AS MUCH AS THEY CAN WITHOUT GENERATING INFLATION AND BE READY TO SEE THEIR CURRENCIES APPRECIATE, WHILE COUNTRIES IN A WEAK POSITION SHOULD HOLD THE GROWTH OF DOMESTIC DEMAND BELOW THE RISE IN PRODUCTIVE POTENTIAL, AND BE READY TO SEE THEIR CURRENCIES DEPRECIATE WHERE NECESSARY TO MAINTAIN OR IMPROVE THEIR COMPETITIVE POSITION. BUT BETTER PAYMENTS EQUILIBRIUM RESULTING FROM DIFFERENTIAL DEMAND MANAGEMENT WILL ONLY PROVE SUSTAINABLE OVER THE LONGER RUN IF IT LEADS TO ENDURING CHANGES IN INDUSTRIAL STRUCTURES AND UNDERLYING COMPETITIVE POSITIONS. EXPERIENCE SHOWS HOW SLOW AND PAINFUL THIS PROCESS CAN BE. IN THE MEANWHILE, CURRENT SURPLUSES AND DEFICITS HAVE TO BE FINANCED.

20. TO DATE, COUNTRIES HAVE NOT GENERALLY FOUND MUCH DIFFICULTY IN FINANCING QUITE LARGE CURRENT DEFICITS SO LONG AS THEY HAVE BEEN REASONABLY SUCCESSFUL IN MAINTAINING INTERNAL FINANCIAL STABILITY. FINANCING DIFFICULTIES HAVE ARISEN NOT SO MUCH BECAUSE OF THE BURDEN OF ACCUMULATING DEBT AS OF THE UNSATISFACTORY STATE OF THE DOMESTIC ECONOMY. MINISTERS MAY WISH TO STRESS THAT THE NEGOTIATION OF STABILISATION PROGRAMMES WITH THE IMF CAN PROVE

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VERY BENEFICIAL TO A COUNTRY'S CREDIT-WORTHINESS, AND
URGE THAT COUNTRIES SHOULD BE PREPARED TO TAKE THIS STEP
AS SOON AS THE NEED BECOMES APPARENT.

21. THE UNITED STATES HAS DECIDED NOT TO PRESS FOR THE
RATIFICATION OF THE OECD FINANCIAL SUPPORT FUND, UNLESS
IT PROVES IMPOSSIBLE TO NEGOTIATE A NEW FACILITY OF SUFFICIENT
SIZE IN THE IMF. MINISTERS MAY WISH TO HAVE AN
EXCHANGE OF VIEWS ABOUT THE PROGRESS OF THESE NEGOTIATIONS,
AND ON THE OVERALL ADEQUACY OF OFFICIAL FINANCING FACILITIES
IN THE LIGHT OF LIKELY NEEDS AND AVAILABILITIES OVER
THE NEXT 12-18 MONTHS.

ANTI-INFLATIONARY POLICIES OVER THE MEDIUM TERM

22. IT WAS NOTED EARLIER THAT ALTHOUGH THE RISE IN CONSUMER
PRICES SHOULD SLOW DOWN LATER THIS YEAR, THERE IS
LITTLE IMMEDIATE PROSPECT OF A SIGNIFICANT DECLINE IN THE
UNDERLYING RATE OF INFLATION IN MOST OECD COUNTRIES. THIS
MUST BE A MATTER FOR SERIOUS CONCERN, SINCE IT WOULD BE
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WIDELY AGREED THAT SUCH A DECLINE IS ESSENTIAL IF THE
RECOVERY IS TO BE SUSTAINED BEYOND 1978 AND INTO THE
1980S.

23. THIS IS THE PROBLEM TO WHICH MUCH OF THE REPORT
"TOWARDS FULL EMPLOYMENT AND PRICE STABILITY" IS
ADDRESSED. IN THEIR ANALYSIS, THE AUTHORS ATTRIBUTE
MUCH OF PRESENT DIFFICULTIES TO THE PERSISTENCE OF THE

INFLATIONARY EXPECTATIONS GENERATED DURING 1973-75 RATHER THAN TO DEMAND PRESSURES IN EITHER PRODUCT OR LABOUR MARKETS. IN THEIR VIEW, WHAT IS REQUIRED IS A COMBINATION OF A SUSTAINED INCREASE IN DEMAND WITH A SKILFUL AND DETERMINED POLICY OF PROGRESSIVELY REDUCING TARGETS FOR THE RISE IN INCOMES AND PRICES, THE GROWTH OF THE MONEY SUPPLY AND THE AMOUNT OF FISCAL STIMULUS.

24. MORE SPECIFICALLY, AS PART OF A WIDER RANGE OF SUGGESTIONS, THE REPORT RECOMMENDS:

- PUBLIC ANNOUNCEMENT OF NORMS FOR THE RATE OF GROWTH OF THE MONEY SUPPLY. THESE SHOULD BE REDUCED PROGRESSIVELY OVER TIME AS INFLATION IS BROUGHT DOWN TO MORE ACCEPTABLE LEVELS.
- FISCAL POLICY SHOULD BE SET IN A FRAMEWORK OF PUBLISHED MEDIUM-TERM BUDGET NORMS. THESE SHOULD BE DESIGNED TO INDICATE THE UNDERLYING BUDGET POSITION REQUIRED TO BALANCE EX ANTE SAVINGS AND INVESTMENT OF OTHER SECTORS AT DESIRED LEVELS OF OUTPUT, EMPLOYMENT AND PRICES.
- WITHIN THE FRAMEWORK OF NON-ACCOMODATIVE MONETARY AND FISCAL POLICY, GOVERNMENTS SHOULD DISCUSS REGULARLY WITH THE ORGANISATIONS REPRESENTING BUSINESS AND LABOUR THE GENERAL EVOLUTION OF PRICES AND WAGES TO BE AIMED AT, CONSISTENT WITH ACHIEVING OR MAINTAINING HIGH EMPLOYMENT LEVELS.

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25. NONE OF THIS IS NEW. BUT THE EXPERTS ARGUE THAT WHAT IS NEW IS THE CONTEXT WITHIN WHICH SUCH POLICIES SHOULD BE PURSUED AFTER A MAJOR INFLATIONARY RECESSION DURING WHICH BOTH EMPLOYERS AND UNIONS LEARNED THEY COULD PRICE THEMSELVES OUT OF BUSINESS AND OUT OF JOBS. THE GROUP MAINTAINS THAT WHAT IS NEEDED IS A COHERENT SET OF POLICIES DESIGNED TO KEEP ALIVE THE LESSONS LEARNED DURING THIS PERIOD.

III. SUMMARY OF QUESTIONS FOR CONSIDERATION

26. MINISTERS WILL WISH TO RENEW THEIR COMMITMENT TO A STRATEGY OF SUSTAINED EXPANSION AIMING AT A PROGRESSIVE RETURN TO FULL EMPLOYMENT AND PRICE STABILITY. THEY MAY WISH TO CONCENTRATE THEIR ATTENTION ON HOW THE IMPLEMENTATION OF THE STRATEGY COULD BE IMPROVED OVER THE COMING YEAR.

(I) AT THEIR MEETING IN LOND, THE HEADS OF STATE AND

GOVERNMENTS OF SOME OECD COUNTRIES COMMITTED THEMSELVES TO TARGETS FOR GROWTH AND STABILISATION, WHICH ARE INTENDED TO PROVIDE THE BASIS FOR SUSTAINED NON-INFLATIONARY GROWTH WORLD-WIDE. MINISTERS MAY WISH TO CONSIDER WHETHER SUCH COMMITMENTS

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SHOULD BE EXTENDED TO COVER ALL MEMBER COUNTRIES
AND EXTENDED FORWARD INTO 1978.

(II) WOULD MINISTERS AGREE THAT, IN ORDER TO MAKE BETTER PROGRESS IN REDUCING UNEMPLOYMENT AND HELP STIMULATE A REVIVAL OF PRODUCTIVE INVESTMENT, IT WOULD BE DESIRABLE TO AIM AT A RATE OF EXPANSION OF THE ORDER OF 5 PERCENT IN THE OECD AREA AS A WHOLE IN 1978? WOULD THIS BE COMPATIBLE WITH A FURTHER REDUCTION IN THE UNDERLYING RATE OF INFLATION? IN ORDER TO IMPROVE IMPLEMENTATION OF THE STRATEGY, SHOULD MEMBER COUNTRIES BE INVITED TO SUBMIT THEIR TARGETS FOR THE GROWTH OF DOMESTIC DEMAND AND THEIR STABILISATION POLICIES FOR 1978 TO A PROCESS OF MULTILATERAL EXAMINATION AND MONITORING UNDER THE AUSPICES OF THE ECONOMIC POLICY COMMITTEE? SHOULD THE RESULTS OF THIS EXERCISE BE SUBMITTED TO A MEETING OF THE COUNCIL AT MINIS-

TERIAL LEVEL AROUND THE END OF THIS YEAR?

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(III) MINISTERS MAY WISH TO EXCHANGE VIEWS ON THE PROGRESS MADE IN NEGOTIATING SUPPLEMENTARY LINES OF CREDIT IN THE IMF, AND ON THE QUESTION OF WHETHER ADEQUATE OFFICIAL FINANCING FACILITIES NOW SEEM LIKELY TO BE AVAILABLE TO THOSE SMALLER MEMBER COUNTRIES WHO MAY BE IN NEED OF THEM OVER THE NEXT TWELVE MONTHS TO BACK UP APPROPRIATE STABILISATION PROGRAMMES.

(IV) MINISTERS MAY WISH TO ENDORSE THE VIEW THAT IN PREVAILING CIRCUMSTANCES FURTHER EFFORTS SHOULD BE MADE TO SUPPLEMENT OVERALL DEMAND MANAGEMENT POLICIES BY SPECIFIC MEASURES DESIGNED TO INCREASE EMPLOYMENT, PARTICULARLY IN CASES WHERE DOMESTIC INFLATION AND/OR A WEAK EXTERNAL POSITION ACT AS A CONSTRAINT ON GENERAL EXPANSIONARY ACTION. SHOULD ARRANGEMENTS FOR THE EXCHANGE OF EXPERIENCE ON MEASURES FOR ALLEVIATING YOUTH UNEMPLOYMENT BE STRENGTHENED AND A HIGH-LEVEL CONFERENCE ORGANISED TO DEVELOP POLICY DIRECTIONS FOR DEALING WITH THIS COMMON PROBLEM?

(V) RECOGNISING THAT A FURTHER REDUCTION IN INFLATION IS AN ESSENTIAL REQUIREMENT FOR A PROGRESSIVE RETURN TO FULL EMPLOYMENT BY THE EARLY 1980S, AND ACCEPTING THAT THERE ARE IMPORTANT DIFFERENCES BETWEEN MEMBER COUNTRIES, HOW FAR WOULD MINISTERS BE PREPARED TO ENDORSE THE RECOMMENDATIONS OF THE GROUP OF EXPERTS THAT A POLICY OF NOT ACCOMMODATING HIGH RATES OF INFLATION SHOULD BE BUILT AROUND SOME OR ALL OF THE FOLLOWING ELEMENTS: PUBLICLY-ANNOUNCED NORMS FOR THE GROWTH OF THE MONETARY AGGREGATES; A FISCAL POLICY GEARED TO GUIDELINES FOR PUBLIC EXPENDITURE AND A BUDGET NORM DESIGNED TO AVOID GIVING AN INFLATIONARY STIMULUS OVER THE MEDIUM TERM; AND A PRICES AND INCOMES POLICY DESIGNED TO CLARIFY THE KIND OF

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PRICE AND WAGE BEHAVIOUR CONSISTENT WITH ACHIEVING AND MAINTAINING FULL EMPLOYMENT?

(VI) SHOULD THE COMPETENT BODIES OF THE ORGANISATION

BE INSTRUCTED TO REVIEW THE PROSPECTS AND POLICIES
FOR NON-INFLATIONARY GROWTH OVER THE NEXT FEW YEARS,
TAKING ACCOUNT OF THE IDEAS PUT FORWARD BY TUAC AND
BIAC AND THOSE CONTAINED IN THE REPORT OF THE EXPERT
GROUP?

DEMAND, INFLATION AND UNEMPLOYMENT
IN THE OECD AREA:
MID-1975 TO MID-1978

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 INRE-00 SSO-00 NSCE-00
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SS-15 NSC-05 L-03 STR-04 /108 W
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	1975	1976	1977	1978
	II	I	II	I

OECD GNP (A)	4.4	6.3	3.3	4.0	5.0	4.0
EX. UNITED STATES	2.1	6.2	3.0	3.0	4.0	3.5

OECD CONSUMER	8.9	7.8	7.9	8.75	8.0	7.25
PRICES (A)						
EX. UNITED STATES	10.5	9.9	9.4	10.5	9.0	8.25

UNEMPLOYMENT (B)	15.1	14.6	15.3	15.0	15.0	15.0
EX. UNITED STATES	7.2	7.5	7.8	8.0	8.2	8.5

FIGURES FOR 1977 AND 1978/I ARE SECRETARIAT ESTIMATES
AND FORECASTS.

(A) PER CENT CHANGE FROM PREVIOUS HALF-YEAR AT SEASONALLY-
ADJUSTED ANNUAL RATES.

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(B) AVERAGE IN MILLIONS DURING THE HALF YEAR. THE TOTAL
EXCLUDES FIGURES FOR GREECE, PORTUGAL AND TURKEY; IF
ESTIMATES FOR THESE COUNTRIES ARE ADDED THE TOTAL WOULD
BE ABOUT 17 MILLION IN 1976.

END TEXT
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Concepts: TEXT, DOCUMENTS, EMPLOYMENT, INSTRUCTIONS, MEETING AGENDA, POLICIES, MEETINGS, PRICE INDEXES
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Disposition Reason:
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